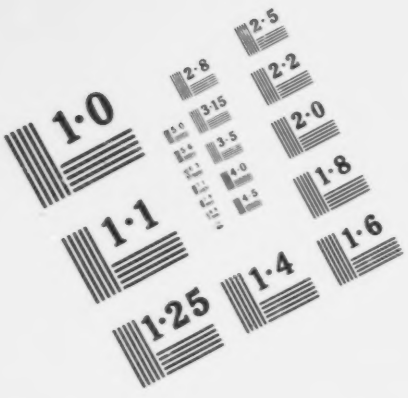

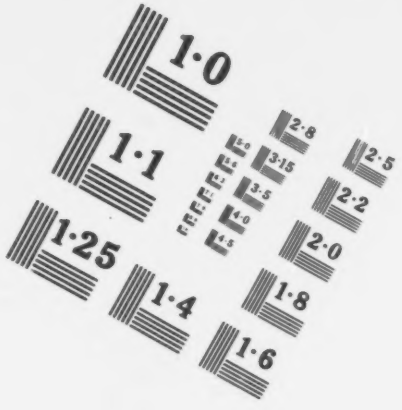

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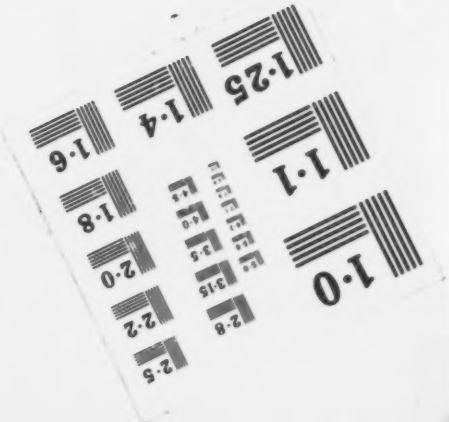

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Department of
Veterans Affairs

Lender's Guide to the Lender Appraisal Processing Program

VA Handbook H-26-90-1
September 26, 1990

Veterans Benefits Administration

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FOREWARD

This handbook contains the policies, procedures, instructions and guidelines to eligible lenders in applying for and operating under the VA's Lender Appraisal Processing Program (LAPP). The authority to establish this program is granted by Public Law 100-198, Veterans' Home Loan Program Improvements and Property Rehabilitation Act of 1987.

D'Wayne Gray
Chief Benefits Director

Distribution: Per VA Forms 3-7225 and 3-7225a
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LENDER APPRAISAL PROCESSING PROGRAM

SECTION I. INTRODUCTION

1.01 Scope

This handbook describes VA's Lender Appraisal Processing Program (LAPP) and provides the policies, procedures, instructions and guidelines to eligible lenders in applying for and operating under this special privilege. This program is a logical extension of the authority to close loans on the automatic basis. Public Law 100-198, Veterans' Home Loan Program Improvements and Property Rehabilitation Act of 1987, provides VA with the authority to establish this program.

1.02 Basic Program Outline

The basic process under this program is as follows:

a. Property Eligibility. Only individual single family existing construction cases are eligible for processing under this program. The lender will be responsible for determining the basic eligibility of the property when requesting the appraisal. Multi-family dwellings, manufactured homes, and requests for liquidation appraisal purposes are not eligible under LAPP. Proposed construction cases may be authorized in selected areas for test purposes. Existing construction cases are defined as:

(1) Previously owner occupied, regardless of the age or date construction was completed, and provided the property meets VA MPR's (minimum property requirements) for existing construction (see fig. 2).

(2) Not previously occupied, provided construction was completed 1 year or more prior to the date of the appraisal request and meets VA MPR's for existing construction.

(3) Not previously occupied, construction is less than 1 year old and is fully complete except for customer preference items (e.g., interior finishes, appliances, equipment) and those exterior improvements for which the VA regional office allows onsite escrows and the property is enrolled in a 10-year insurance-backed warranty plan that has been accepted by VA. (See fig. 3.)

b. Lender Eligibility. Only supervised lenders and nonsupervised lenders who have been approved for the automatic authority may participate in this program.

c. Assignment Procedure. Either the telephone appraisal request procedure, or computer accessed request procedure if available, may be used. Mailed and facsimile transmitted appraisal requests will not be accepted. The VA regional office will inform the lender of the case number and the name of the fee appraiser assigned to the case.

d. Lender Review of Appraisal. The lender's approved staff appraisal reviewer, upon receipt of the appraisal report from the VA assigned fee appraiser, shall review the appraisal for completeness, soundness and conformity with accepted appraisal techniques and practices, as well as outstanding VA guidelines, directives, and requirements. Upon determining the reasonable value for the property in accordance with the authority provided by this directive and 38 CFR 36.4344, and that the appropriate VA requirements have been met, the lender may then proceed to underwrite the loan on the automatic basis.

e. Loan Guaranty Certificate. In assuming the responsibilities involved with processing appraisals under this program and subsequently underwriting the loan on the automatic basis, the lender has reasonable certainty that VA Form 26-1899, Loan Guaranty Certificate, will be issued except in cases of fraud or misrepresentation by the lender. The lender is responsible for complying with all applicable outstanding procedures, regulations and statutory requirements.

SECTION II. REQUESTING DELEGATION OF LAPP AUTHORITY

2.01 Eligibility, Application and Processing Requirements for Approval

Only supervised lenders and those nonsupervised lenders who have been approved by VA to process loans on the automatic basis may participate in the LAPP program. Those lenders who desire to obtain approval to make the reasonable value determination under LAPP shall comply with the following requirements:

2.02 Nomination of Staff Appraisal Reviewer by Senior Officer

The senior officer of the lending firm must nominate and recommend those qualified full-time salaried personnel who will act in the firm's behalf as their staff appraisal reviewer(s) to personally review appraisal reports received from VA assigned fee appraisers and to make reasonable value determinations associated with the submission of loans to VA which will be closed on the automatic basis. Lender staff review personnel may not be employed by or perform appraisal review services for any other lender and may not be on the VA fee panel. Although VA does not intend to preclude staff appraisal personnel from other private interests or pursuits, it must be understood that when such private interests or pursuits result in a situation in which VA considers a conflict exists with their responsibilities in determining reasonable value for VA loan guaranty purposes, action to withdraw or suspend the authority to determine reasonable value may result.

2.03 Qualifications of Staff Appraisal Reviewer

The staff appraisal reviewer must show to the satisfaction of VA that his/her character, experience, and type of work in which he/she has had 3 years' experience qualifies him or her to competently value property. The individual must be able to demonstrate, through descriptions of job experience, a knowledge of, and the ability to apply the principles, methods, practices and techniques of appraising. Experience demonstrating knowledge of general realty practice and principles as related to real property valuation, skill in collecting and assembling data, and the ability to prepare clear and concise reports are also required. The individual must have the ability to review the work of others, to recognize deviations from accepted appraisal principles and practices, and to detect errors in computations and unjustifiable and unsupportable conclusions. Experience related to HUD (Department of Housing and Urban Development) Direct Endorsement program will be given consideration in the above criteria, but is not automatically qualifying.

2.04 Location of Staff Appraisal Reviewer/Geographic Familiarity

a. The lender's staff appraisal reviewer may be located in a branch office. When the VA-approved underwriter is also the VA-approved staff appraisal reviewer, that individual must be located and conduct activities at the home or main office or in the lender's regional underwriting office when VA has approved that office. There is no restriction on the location of a supervised lender's staff appraisal reviewer.

b. VA has no requirement that staff appraisal reviewers visit the geographic areas where properties processed under LAPP are located. Lenders are, however, strongly encouraged to continuously maintain current source materials which will assist their staff appraisal reviewers in identifying real estate market conditions in the major market areas in which the LAPP authority is used. Suggested source materials include weekend subscriptions to major newspapers which typically have expanded real estate sections and independent newsletters and publications which provide analysis and forecasts of various housing and mortgage trends and other statistical data for major U.S. housing markets and regions.

c. Locational factors are fundamental to proper appraising. VA fee appraisers are expected to use proper appraisal techniques in completing appraisals and to accurately report and reflect overall market conditions as of the effective date of the appraisal report. Lenders' staff appraisal reviewers, by reviewing up-to-date locational source materials, will be better prepared to properly analyze the locational and market trend information contained in the URAR (Freddie Mac Form 70/Fannie Mae Form 1004, Uniform Residential Appraisal Report). Field

reviews performed by the lender in conjunction with the lender's quality control plan will also provide assistance to staff appraisal reviewers in maintaining location familiarity.

2.05 Staff Appraisal Reviewer Certification

The staff appraisal reviewer's role and responsibility are critical elements of LAPP. The staff appraisal reviewer must provide a one-time certification with the application which acknowledges that, by signing the URAR in LAPP cases, he or she is representing on behalf of the lender employer that he/she has acted properly and prudently. Such certification will be on the lender's letterhead and will read as follows:

"I hereby acknowledge and represent that by signing the URAR (Freddie Mac Form 70/Fannie Mae Form 1004, Uniform Residential Appraisal Report), I am certifying, in all cases, that I have personally reviewed the appraisal report. In doing so, I have considered and used recognized professional appraisal techniques, have found the appraisal report to have been prepared in compliance with applicable VA requirements, and concur with the recommendations of the VA fee appraiser who was assigned by VA to the case. Furthermore, in those cases when clarifications or corrections have been requested from the VA fee appraiser, there has been no pressure or influence exerted on that appraiser to remove or change information that might be considered detrimental to the subject property, or VA's interests, or to reach a predetermined value for that property.

_____
Signature of Staff Appraisal Reviewer"

2.06 Applications

a. VA Form 26-6681, Application for Fee Personnel Designation, will be used by lenders when requesting approval of the staff appraisal reviewer. Items 14, 15, 21, 22, 23 and 24 need not be completed. Applicants shall complete item 17, covering a minimum of the last 3 years. The information will include the number of appraisal reviews or actual appraisals completed each year and state under whose employ. It should state whether those activities were for VA, HUD/FHA (Federal Housing Administration), or conventional purposes. The applicant must also provide a separate resume or written statement describing his/her experience and current responsibilities in reviewing appraisals. The information provided on the separate resume or statement may be brief but should be sufficiently detailed that VA can, along with other information contained in the application, reach a conclusion that the individual meets VA's qualifications. In item 20, or on the separate resume or statement, the applicant will list all successfully completed appraisal and real estate related courses. The top of the form will reflect that the application is for the lender's staff appraisal reviewer. In addition to VA Form 26-6681, the senior officer of the lending firm must provide the following statement and certification in letter form:

"We hereby nominate and recommend to VA the full-time salaried employee named on the accompanying VA Form 26-6681, who is authorized to act on our behalf as a staff appraisal reviewer, and is qualified to review and concur in recommendations of VA fee panel appraisers in those cases in which we determine the reasonable value of properties associated with loans to be closed by us on the automatic basis. We acknowledge that any improper actions of the staff appraisal reviewer shall be imputed to the employer who is ultimately responsible for the actions of the employee. The nominee, to the best of our knowledge and belief, has and will maintain a high level of integrity, trust, professional ethics and technical ability. We have reviewed this application, personally interviewed the nominee and conducted a thorough review of the appraisal related capabilities and performance of the nominee. Based on the above, we find the nominee to be qualified as a staff appraisal reviewer in accordance with qualifications established by VA. If we should, at any time in the future, change or limit this recommendation or terminate our relationship with the nominee, we, the undersigned, agree to promptly notify the VA regional offices or centers of jurisdiction.

_____

Signature, Title"

b. VA Form 26-6681, accompanied by all information including certifications, statements, and quality control plan required by this handbook, must be submitted in duplicate to the VA regional office or center serving the office of the lender where the staff appraisal reviewer is located. The applicant need not submit VA Form 26-6684, Statement of Fee Appraisers or Compliance Inspectors, as instructed by VA Form 26-6681. The application must indicate the States for which the nominated staff appraisal reviewer will be responsible. Upon receipt of the completed application, the VA regional office or center will determine that all required information has been provided and will forward the originals of the application and all other required information to VA Central Office within 10 workdays from receipt. VA Central Office will review the application package and advise lender-applicants and the VA regional office or center of its decision on the acceptability of the applicant.

c. VA Central Office may contact VA regional offices in those States outside the location of the lender's office where the staff appraisal reviewer is located to obtain information on his or her experience with the lender or its nominee, as part of the decision-making process in determining the acceptability of the staff appraisal reviewer(s).

d. Lenders who desire to add additional staff appraisal reviewers must provide a complete application package, with the exception of the quality control plan if it remains unchanged from the plan originally submitted, for each individual who will be named as a staff appraisal reviewer.

2.07 Quality Control Plan

Under LAPP, the lender must have an effective quality control or comparable system to ensure the adequacy and quality of staff appraisal reviewer's processing and that its activities do not deviate from high standards of integrity. The quality control system must include frequent, periodic audits that specifically address the appraisal review activity. Audits may be performed by an independent party or an independent internal audit division which reports directly to the firm's chief executive officer. Upon demand by VA, the lender must agree to furnish findings and information about this system. While quality control personnel need not be appraisers, they should have basic familiarity with appraisal theory and techniques and the ability to prescribe appropriate corrective action(s) in the appraisal review process when discrepancies or problems are identified. The plan or system must be provided with the lender's application for LAPP authority. The basic elements of the system will include the following:

a. Desk reviews of a representative sampling of each staff appraisal reviewer's appraisal reviews. The sampling size should be no less than 5 percent of the monthly volume of cases processed under LAPP authority or a minimum number of cases; e.g., five cases. The quality reviews should be performed on a routine basis (e.g., monthly or quarterly) and consider the overall quality of the lender staff review personnel's appraisal review, the acceptability of the property in light of VA minimum property requirements and the appropriateness of the reasonable value determination.

b. Written notification on at least a quarterly basis to the firm's senior management or chief executive officer of deficiencies cited in audit/quality control reviews. Senior management should promptly initiate action to correct deficiencies. Such actions should be formally documented and staff appraisal reviewers provided with corrective instructions. Procedures for expanding the scope of audit must be identified when a pattern(s) of deficiencies exist.

c. Random spot-check field reviews of VA fee panel appraisals should be performed by the staff appraisal reviewer, if possible, or an independent appraiser on a contract basis. Any substantive negative findings must be formally reported to the VA regional office or center where the fee appraiser is a member of the fee panel.

d. Assurance that all available VA releases, directives, informational letters, regulations and directives pertaining to LAPP are maintained current and immediately accessible to the quality control personnel and staff appraisal reviewers.

e. The quality control system should be independent of the loan production operation.

2.08 Affiliates, Relationships

The lender will not be authorized to use LAPP for any builder, land developer, real estate broker or any other entity in which it has a financial interest or which it owns, or with which it is affiliated. This restriction may be eliminated where the only relationship between the lender and a builder is a construction loan or when the lender can provide documentation which demonstrates to VA's satisfaction that the lender and builder or other affiliate are essentially separate entities operating independently of each other, free of all cross influences (e.g., formal corporate agreement is provided which specifically sets forth this fact). Such documentation must be included with the application for LAPP authority. Additionally, the lender's quality control plan must address the insulation of the fee appraiser, appraisal reviewer and the underwriter from the influence of the affiliate.

2.09 Other Certifications Required With Application

a. Disclosure of Suspension, Debarment or Sanctions. The staff appraisal reviewer applicants must certify that he/she has not been suspended, debarred or had a similar sanction imposed by any Department or Agency of the Federal Government or of a State government which prohibits him or her from doing business with such Department or Agency and that there are no known unresolved findings against him or her, as a result of a VA or HUD audit or other government investigation. Furthermore, if the applicant is, or was, a member of a professional organization (e.g., professional appraisal organization) any administrative sanctions must not have been taken. If the individual cannot certify to the preceding, a letter fully explaining the details should be attached.

b. No Accommodations or Courtesy Certification. A senior officer in the company must certify to VA in writing that it will not perform any reasonable value determinations as a courtesy or accommodation for any other mortgage lender regardless of whether or not the other lender is authorized by VA to also determine reasonable value and close loans on the automatic basis. The appraisal review and determination of reasonable value must not be delegated and must be performed only by the lender's VA approved staff appraisal reviewer.

c. Outstanding CRV or HUD Commitment Certification. A senior officer in the company must certify in writing that no appraisal will be ordered under this program when, to the company's knowledge and belief, there is a valid CRV (certificate of reasonable value) or HUD conditional commitment outstanding for the subject property. Conversely, no CRV or HUD conditional commitments will be ordered when the case has been previously processed under LAPP, unless authority for such action has been specifically granted by VA.

SECTION III. INITIAL APPROVAL REQUIREMENTS

3.01 Initial Approval of Lender's Staff Appraisal Reviewer(s)

Lenders whose staff appraisal reviewers are determined acceptable by VA Central Office will be authorized to review appraisals and make reasonable value determinations subject to a one-year probationary period and satisfaction of an initial VA office case review requirement, a training requirement, and, if applicable, subsequent VA office case review requirement(s). Satisfaction of the VA office case review requirement(s) and training requirements, as discussed in paragraphs 3.02 through 3.04, are required prior to the lender being authorized to determine reasonable value without prior VA involvement.

3.02 Initial VA Office Case Review Requirement

a. The initial VA office case review requirement must be satisfied in the VA regional office with jurisdiction of the area where the lender's staff appraisal reviewer is located before the lender may use LAPP authority in that or any other VA office's jurisdiction. To satisfy the initial office case review requirement, the first five cases of each lender's staff appraisal reviewer involving properties located in the jurisdiction of the VA regional office where the staff appraisal reviewer is located will be processed by him or her up to the point a reasonable value determination and a fully drafted, BUT NOT ISSUED, notification of reasonable value letter to the veteran are prepared. At that point, and prior to loan closing, each of the five cases will be submitted to the local VA office. VA staff appraisers will issue the CRV for these cases within 5 workdays after receipt, provided the fee appraiser's appraisal report is acceptable. The lender may use that CRV to close the loan on the automatic basis. VA staff appraisers will make a determination as to the acceptability of the LAPP lenders processing of the case. Lenders need not delay the mortgage credit underwriting process in those cases when VA issues the CRV (i.e., order credit reports or employment verifications) while the initial case review by VA is underway. If the lender's staff appraisal reviewer's processing, reasonable value recommendation, and notification of reasonable value letter, including cited conditions and requirements, for these five cases are satisfactory, then the lender will be notified by letter that, as a LAPP lender, it is authorized to make subsequent reasonable value determinations for properties located in that regional office's jurisdiction without prior review by VA staff personnel. If the VA regional office determines that the lender's staff appraisal reviewer's processing of any of the initial five cases contains deficiencies VA will, by letter issued within 5 workdays of receipt of each case, notify the lender of the specific problems noted in the review of the cases. If the deficiencies are substantive (e.g., significant appraisal errors not identified,

proper MPR or other conditions or requirements not correctly noted on the notification letter to the veteran as a condition to VA guaranty) the VA regional office will state in the letter that the lender must continue to submit LAPP cases for review and VA will issue the CRV prior to closing. Additionally, the VA regional office may require that the staff appraisal reviewer come into the office, if appropriate, for counseling or training.

b. It is anticipated that in most instances VA initial office case review of each LAPP staff appraisal reviewer's cases will total not more than the five cases, especially when the lender has significant HUD Direct Endorsement program experience. Any problems or deficiencies encountered will most likely relate to the notification letter and VA conditions and requirements which differ from HUD's program.

c. Upon satisfactory completion of the initial office case review requirement, the lender will be authorized to determine the reasonable value of properties which are located in the initial VA office's jurisdiction proposed as security for VA guaranteed loans without prior VA involvement other than VA rotational fee appraiser assignment. Thereafter, a routine review of cases processed by the lender under LAPP authority will be made by VA staff based upon quality control procedures established by VA. Such review will be on a random sampling or performance related basis. During the probationary period a high percentage of reviews will be made by VA staff.

3.03 Training Requirement

Prior to each staff appraisal reviewer receiving authority to review appraisals and determine reasonable value without VA involvement, there is a training requirement which must be satisfied with the VA regional office having jurisdiction where the staff appraisal reviewer is located. Although it is desirable for the requirement to be satisfied by a meeting at the VA regional office, VA offices may arrange training through meetings or seminars in other locations, if appropriate (e.g., in concert with scheduled field travel in outlying areas of their jurisdiction). At a minimum, the training should consist of a one-day session to discuss LAPP processing procedures and guidelines and local VA office requirements and conditions. In most cases, the training requirement should be satisfied before any of the cases under the initial VA office case review requirement are reviewed by the lender's staff appraisal reviewer. However, VA offices may, at their discretion, alternatively require that the training requirement be satisfied during, or at the completion of, the initial VA office case review requirement. Upon receipt of the notice that the staff appraisal reviewer(s) has been determined acceptable, the lender must call the VA regional office to make arrangements for the required training and to receive other appropriate instructions

for initiating the processing of cases under LAPP. In no case will a VA office extend the authority to determine reasonable value until the staff appraisal reviewer has satisfied the training requirement.

3.04 Subsequent VA Office Case Review Requirement

In order to extend and use LAPP authority to determine reasonable value of properties located in other VA office jurisdictions, the lender's staff appraisal reviewer must have successfully completed the initial VA office review requirement, training requirement, and then must satisfy the subsequent office review requirement. Each staff appraisal reviewer's first case in each new VA office jurisdiction must be submitted to that VA office along with a copy of the letter from the initial VA office evidencing that the initial office review requirement has been satisfied. Each subsequent VA office will process this first case in the same manner as the initial VA office case review requirement as described in paragraph 3.02. If this first LAPP case is found to be acceptable by the VA regional office, the lender will be formally advised that their staff appraisal reviewer may process subsequent LAPP cases in that jurisdiction without prior involvement by VA. The subsequent office review requirement may be satisfied simultaneously at other VA offices.

3.05 Extension of Initial and/or Subsequent Office Review Requirements

VA offices may extend the initial or subsequent office review requirement(s) if satisfactory performance is not demonstrated. Central Office concurrence is required for any such extension.

3.06 Initial and Subsequent VA Office Case Review Requirements for Additional Staff Appraisal Reviewers

a. When the lender adds a new staff appraisal reviewer, the initial VA office case review requirement will apply and must be satisfied in the VA regional office jurisdiction where the new staff appraisal reviewer is located. The subsequent VA office case review requirement must also be satisfied if the lender desires to extend and use the additional staff appraisal reviewer to process LAPP cases in other VA office jurisdictions. VA offices may consider waiving the requirement for the subsequent VA office case review if the new staff appraisal reviewer is located in an office with another staff appraisal reviewer who has already satisfied this requirement and who has demonstrated satisfactory performance. When the requirement is waived, the lender's staff appraisal reviewer who already satisfied the subsequent office review requirement will be responsible for overseeing the added staff appraisal reviewer's processing and orientating that individual to the requirements specific to the new jurisdiction. The initial VA office case review requirements may not be waived except under the following circumstances.

b. VA regional offices may consider waiving the initial case review requirement when the individual has acceptably satisfied this requirement previously under the employ of another LAPP lender in their jurisdiction, when the individual has demonstrated past acceptable performance with the regional office, and when the individual is now on the staff of the new LAPP lender with one or more staff appraisal reviewers who are demonstrating acceptable performance.

3.07 Change in Employment Status of Staff Appraisal Reviewer

Acceptance by VA of the lender's LAPP staff appraisal reviewer ceases when the nominating lender no longer employs that individual in that capacity. When that individual was the sole LAPP staff appraisal reviewer, the lender no longer meets a basic LAPP requirement and the LAPP authority is automatically terminated for any cases not reviewed by that individual. As noted in the senior officer's nomination certification, the lender must promptly notify VA regional offices of the change in status or termination of the individual nominated as the LAPP staff appraisal reviewer. VA regional offices will in turn formally advise Central Office of the change in status of the lender and lender staff appraisal reviewer. Individuals who have previously been qualified by Central Office must be renominated by a new lender employer and a complete application package must be submitted and processed, except the quality control plan which need be submitted only if the lender has not been previously delegated LAPP authority. VA regional offices will attempt to verify with any former LAPP employer that the basis for termination was not related to improper performance which would compromise the individual's ability to meet VA's qualification requirements.

3.08 Importance of LAPP Lender Appraisal Reviewer's Role and Responsibility

The lender's staff appraisal reviewer's role and responsibility are critical elements of LAPP. The lender's staff appraisal reviewer, by making the required certification filed at the time of application, is stating that, in all cases, he or she has: (a) personally reviewed the appraisal report; (b) considered and used recognized appraisal techniques; (c) finds compliance with applicable VA requirements; and (d) concurs in the recommendations of the fee appraiser; or (e) when clarifications or corrections to the appraisal report were requested no pressure or undue influence was exerted on the appraiser to change detrimental information or to reach a predetermined value for the subject property in order to accommodate the sales or mortgage transaction.

3.09 Lender Maintenance of LAPP Related Materials and Releases

The lender shall maintain copies of all available guidelines, directives, releases, circulars, regulations, statutes, and instructions issued by local VA office(s) having jurisdiction over each area where the lender originates LAPP loans, particularly those directly relating to LAPP. Local VA offices are available to advise and assist in processing cases under this special privilege and will hold periodic training sessions on the lender appraisal processing program as appropriate. Additionally, instructional materials concerning appraisals completed on the URAR are available from a number of private sources. Since VA appraisals are completed on the URAR, lenders may consider obtaining such materials to assist their staff appraisal reviewer(s) in reviewing appraisals completed by VA assigned fee appraisers. Lenders should be aware that VA instructions or procedures prevail when in conflict with private source materials.

SECTION IV. LENDER PROCESSING UNDER LAPP

4.01 Privilege and Responsibility

The authority to determine reasonable value is delegated at VA's discretion. The authority is extended on the basis of qualifications, experience and expertise of the lender's staff appraisal reviewer(s). Responsibilities of lenders delegated this authority include: ensuring that staff appraisal reviewers review appraisal reports in accordance with recognized appraisal techniques; making prudent and sound determinations of reasonable value; ensuring that the property meets VA minimum property requirements and is acceptable security for a VA guaranteed loan; understanding VA underwriting standards, eligibility, and entitlement requirements.

4.02 Due Diligence

Lenders are expected to exercise due diligence in processing LAPP cases, by compliance with LAPP regulations (38 CFR 36.4344) and with appropriate sections of this handbook. Due diligence is considered by VA to also represent that care is to be properly expected from, and ordinarily exercised by, reasonable and prudent lenders who would be entirely dependent on the property as security to protect its investment.

4.03 Property Eligibility

Unless otherwise authorized by VA, only individual existing construction cases are eligible for processing under LAPP. The lender is responsible for determining that the property is eligible to be processed under LAPP. Proposed construction cases, multi-family, manufactured homes and liquidation appraisal cases are not eligible for processing under LAPP.

Condominiums and PUD's (planned unit developments) must be determined acceptable by VA, HUD or USDA before individual cases can be appraised. Appraisals cannot be ordered under this program when there is a valid CRV or HUD conditional commitment outstanding on the property. Existing construction cases are defined in paragraph 1.02a.

4.04 Request for Assignment of Fee Appraiser

a. Either the telephone appraisal request procedure, or computer-access request procedure, if available, may be used. Mailed or facsimile transmitted appraisal requests will not be accepted. The VA assignment clerk, or automated system in use, will inform the lender of the case number and the name of the fee appraiser assigned to the case. When making the request the lender must identify the case as being processed under LAPP. Cases processed under this program will receive case numbers from the common numbering system; however, a new designation for the type of case is denoted by the prefix LAP. It is essential that lenders denote on VA Form 26-1805, VA Request for Determination of Reasonable Value, this LAP prefix before the case number and show in bold capital letters under the lender's name and address on the appraisal request form "LENDER APPRAISAL PROCESSING PROGRAM (LAPP) CASE."

b. Fee appraisers must be able to determine that the appraisal report will be forwarded to the lender, not VA, for review, processing, and determination of reasonable value. The regional office must also be able to determine those cases processed under LAPP for program reporting purposes and for exclusion of these cases from routine timeliness tracking.

4.05 Forwarding VA Form 26-1805

Upon assignment of the case number and fee appraiser by VA, the lender will immediately forward VA Form 26-1805, fully completed with appropriate information, including the required notations noted in paragraph 4.04, to the fee appraiser. The lender retains the lender's copy for its files and forwards the complete remaining package intact to the VA assigned fee appraiser.

4.06 LAPP Lender's Role/Review

a. VA fee appraisers are expected to return completed appraisals to the lender within the same timeframe as other VA appraisals. The lender, upon receipt of the appraisal report from the fee appraiser, shall have its VA designated staff appraisal reviewer review the report for conformity with accepted appraisal techniques, directives, guidelines and local requirements issued by the VA regional office of jurisdiction, and VA minimum property requirements for existing construction. Essentially, the review by the lender's staff appraisal reviewer consists of the following:

(1) Verification that the appraisal report form is fully completed as required and that the factual information submitted is reported correctly.

(2) Determination of appropriateness and reasonableness of the appraiser's methodology in light of industry accepted appraisal techniques and practices and consistency of the conclusions based upon data in the report.

(3) Determination that data conclusions and the value recommendations are consistent (as is reasonably determined from available information or data) with other data conclusions and value recommendations in similar cases recently processed by that lender.

(4) Compliance with current VA appraisal instructions, directives, and guidelines.

b. It is important for the lender's staff appraisal reviewer(s) to recognize that the appraisal review is a vital part of the overall risk analysis. The staff appraisal reviewer and the fee appraiser have important roles in the VA Loan Guaranty Program. The fee appraiser's role is to provide an objective, adequately supported estimate of market value of an accurately described subject property. The fee appraiser is required to render a value estimate in accordance with VA's regulatory definition of reasonable value (38 CFR 36.4301), "that figure which represents the amount a reputable and qualified appraiser, unaffected by personal interest, bias, or prejudice, would recommend to a prospective purchaser as a proper price or cost in the light of prevailing conditions." VA considers reasonable value and market value to be synonymous. VA's definition of market value is considered consistent with that used by Fannie Mae, Freddie Mac and major appraisal organizations. It is the VA fee appraiser's responsibility to develop a market value for the subject property which is consistent with the current standard definition of market value and the VA regulatory definition of reasonable value.

c. Under LAPP, the lender's staff appraisal reviewer's appraisal review is a crucial control over the quality of appraisal reports completed by fee basis appraisers and the resulting property value determinations. The importance of care and sound judgment in the proper review of appraisal reports cannot be overstated. When information, data conclusions, or methodology contained in the appraisal report require additional clarification or support, the lender's staff appraisal reviewer will contact and obtain from the fee appraiser the information necessary to make a prudent decision on the reasonableness of the value estimate. Lenders are reminded, however, that they must not attempt to unduly influence the appraisers' reporting of market or property conditions and resulting estimate of value. While attempts to unduly influence the fee appraiser are

clearly unacceptable, the staff appraisal reviewer is free to question the appraiser's findings and request additional information or clarifications to support conclusions contained in the appraisal report. Proper reviews and surveillance of fee personnel are essential to the viability of the Loan Guaranty Program and have a direct effect on the interests of the Government and the veteran, as well as lenders participation in the program. Figure 4 provides some guidelines to assist LAPP staff appraisal reviewers and represents items to consider on the fee appraiser's appraisal analysis or methodology. Figure 4 is by no means intended to be an all-encompassing list which lessens or limits the importance of other considerations and is not to be used as a checklist.

d. VA places the most reliance on the sales comparison approach. Any case in which the fee appraiser has based the final value estimate on the cost or income approach and not the sales comparison approach, the staff appraisal reviewer must contact the regional office of jurisdiction over the location of the property to discuss the proper handling of the case. At the discretion of the regional office, it may be necessary to forward the case to the Construction and Valuation Section for review and issuance of the CRV.

4.07 Adjustment of Value Recommendations

The authority of the lender's staff appraisal reviewer to adjust the fee appraiser's estimated market value during the reviewer's initial review of the appraisal report, or in subsequently processing an appeal of the lender's determination of reasonable value, is limited. In either case, the lender's staff appraisal reviewer's adjustment cannot exceed 2 percent of the fee appraiser's estimated market value. IT IS TO BE COMPLETELY UNDERSTOOD THAT THE 2 PERCENT AMOUNT IS NOT IN ANY WAY TO BE CONSIDERED AN ADMINISTRATIVE ADJUSTMENT FIGURE WHICH MAY BE USED AND APPLIED INDISCRIMINATELY, AND WITHOUT ANALYSIS OF VALID DATA, AND THEREFORE WITHOUT BASIS OR JUSTIFICATION WITH THE SOLE PURPOSE OF REACHING AN AMOUNT NECESSARY TO CONSUMMATE THE SALE OR MORTGAGE TRANSACTION. ALL CASES IN WHICH THE LAPP LENDER STAFF APPRAISAL REVIEWER MAKES AN UPWARD ADJUSTMENT TO THE FEE APPRAISER'S ESTIMATED MARKET VALUE AS INDICATED BY THE SALES COMPARISON APPROACH WILL BE DESK AUDITED AND/OR FIELD REVIEWED BY VA STAFF. Any revision, correction, or clarification by the fee appraiser subsequent to the submission of his/her original appraisal report to the lender, either as a result of the staff appraisal reviewer's initial review or of an appeal, may not be processed by the lender for any amount in excess of the 2 percent limitation (fee appraisers are not limited by the 2 percent amount) and must be forwarded to the appropriate VA regional office with a cover letter requesting VA processing of the fee appraiser's recommendation(s). Additionally, lenders are put on notice that in cases when VA has incurred a loss as a result of a payment of claim under guaranty and in which VA determines an increase made

by the lender was unwarranted, or arbitrary and capricious, the lender will indemnify VA to the extent VA determines such loss was caused, or increased, by the increase in value. The lender staff appraisal reviewer's authority to adjust is as follows:

a. Adjustment During Initial Review. Any adjustment during the staff appraisal reviewer's initial review of the appraisal report must be fully and clearly justified in writing on the appraisal report or on an addendum. The basis for the adjustment must be adequate and reasonable by professional appraisal standards. If real estate market or other valid data was used in arriving at the decision to make the adjustment, such data must be attached to the appraisal report. If the staff appraisal reviewer determines the fee appraiser's appraisal report requires additional clarification or justification or correction, the staff appraisal reviewer shall contact the fee appraiser directly for the necessary information or corrective action(s). Any information, revisions, corrections, justifications, etc., provided by the fee appraiser must be in writing and attached to the originally submitted appraisal report. All comments, adjustments, justifications, corrections, revisions, etc., by the staff appraisal reviewer shall be in a contrasting ink, clearly legible, and signed and dated by the reviewer.

b. Processing Appeals of Value. Lenders may not process an appeal of any amount under LAPP authority when they will be using an additional appraisal report performed by an appraiser they selected in order to support the appeal. This is specifically prohibited by 38 U.S.C. 1831(d). In cases when the lender wishes to use an additional appraisal report as noted above, the case must be forwarded to VA for processing and final determination. Veterans are not affected by the statutory prohibition and may use an additional appraisal report by an appraiser they selected to support an appeal which the LAPP lender may then process provided the amount of the increase is within the 2 percent amount. The lender shall not process any appeal in cases when the staff appraisal reviewer has adjusted the market value estimate during the initial review of the appraisal report if the aggregate amount of the increase exceeds the 2 percent amount. The procedures for submitting appeal of value requests to VA are the same as for cases when VA has issued the certificate of reasonable value with the exception that a clear copy of the fee appraiser's appraisal report and all attending information, including photographs, must be submitted to VA along with the request. The fee appraiser's estimated market value or lender's reasonable value determination may be increased only when such increase is clearly warranted and fully supported by real estate market or other valid data considered adequate and reasonable by professional appraisal standards. The staff appraisal reviewer must fully and clearly justify the reason and basis for the increase in writing on the appraisal report form or an addendum. The analysis of additional sales data should be performed using the sales comparison grid from the appraisal report, or a similar format, and include appropriate adjustments for all factors of difference which

contribute to value that exist between the subject and the sales. The staff appraisal reviewer must date and sign the written justification specifically citing the data used in arriving at the decision to make the increase. All such data must be attached to the appraisal report and any addendum.

4.08 Assistance and Cooperation of Fee Appraiser

LAPP staff appraisal reviewers shall contact VA fee appraisers directly when the information or methodology contained in the appraisal report requires clarification, correction or additional support in order to make a prudent decision on the reasonableness of the fee appraiser's market value estimate. VA fee appraisers are expected to be cooperative with lenders in addressing concerns with the content of their appraisal reports. Lenders are expected to take reasonable actions in mitigating difficulties encountered with fee appraisers' appraisal reports. VA should not be considered a "referee" between the lender and fee appraiser in addressing what are considered routine items. In any case in which the staff appraisal reviewer determines that there are substantive problems with the fee appraiser's report, which are not correctable after and through reasonable actions with the fee appraiser, the lender will forward the appraisal report to the Construction and Valuation Section of the VA regional office of jurisdiction along with a written report clearly outlining the difficulties encountered and specifically noting the contacts made with the fee appraiser and the dates. Such information is of assistance in monitoring the performance of fee appraisers and in any administrative actions necessary. As noted in paragraph 4.07a, any revisions, corrections, clarifications by a fee appraiser to the appraisal report must be in writing, attached by the lender to the appraisal report provided by the fee appraiser, and ultimately provided to VA. Any case in which it is found that any appraisal documentation was withheld will constitute an unacceptable act and may be considered a basis for administrative action against the lender and/or fee appraiser.

4.09 MPR Repair Requirements/LAPP Lender's Authority

Lenders are responsible for ensuring that properties processed under LAPP meet VA minimum property requirements. If the lender's staff appraisal reviewer disagrees with the fee appraiser's repair recommendations, he/she may request the fee appraiser to reconsider the appropriateness of the repair requirements or may take the action to remove the requirements provided the aggregate cost of the repair item(s) is equal to the lesser of $500 or one-half of 1 percent of the recommended value of the property and the repair items are clearly minor, nonstructural or of an uncomplicated nature or are non-MPR or cosmetic. Lenders must exercise prudent judgment when dealing with repair requirements. When the lender's staff appraisal reviewer removes a repair requirement(s), the justification for the action must be fully supported and adequately documented on

the report in contrasting ink and signed and dated. Such documentation should normally include an inspection of the property. Any appeal of the propriety of repair items costing in excess of the dollar limitations (the lesser of $500 or one-half of 1 percent of the recommended property value) must be referred to the VA regional office for consideration. A copy of the fee appraiser's appraisal report and photographs of the subject property will accompany such a request. When a veteran is under contract, after having been advised of VA minimum property requirement deficiencies, the request for reconsideration shall be accompanied by a letter signed by the veteran and lender. If the property cannot reasonably be repaired to meet the minimum property requirements, the LAPP lender's staff appraisal reviewer may decline to issue the notification of reasonable value letter to the veteran and shall instead advise the veteran by letter that the property is not acceptable security. In all such cases, a copy of the appraisal (URAR) an all photographs and addendums will be forwarded to the VA regional office under the lenders letterhead along with a copy of the letter to the veteran.

4.10 Unapproved PUD's or Condominiums

The lender is required to take appropriate steps to assure that a PUD or condominium project has been accepted, or conditionally accepted, by VA, HUD, or USDA (FmHA (Farmers Home Administration)) prior to requesting the appraisal and subsequently processing it under LAPP. If the lender discovers that the subject is located in an unaccepted project, processing should be suspended immediately. No notification of the reasonable value shall be issued by the LAPP lender in such cases until the project has been accepted or conditionally accepted by VA, USDA or HUD. The lender must ensure that the required information is submitted to the appropriate VA, USDA or HUD, office and that the project is subsequently or conditionally accepted before processing is resumed. If the project is rejected and cannot be accepted, the property is not eligible for VA financing.

4.11 Leasehold Estates

Generally, cases involving leasehold estates may not be processed under LAPP. An exception may be made by the regional office in those instances when the regional office has accepted leaseholds in the area in accordance with existing Manual M26-2 instructions. If leaseholds are typical for the area, the regional office may determine that staff appraisal reviewers can properly process appraisal reports and make proper reasonable value determinations for such properties. Regional offices are to ensure that LAPP lenders do not process cases when leaseholds have not previously received VA acceptance.

4.12 LAPP Lender's Determination of Reasonable Value

A value recommendation, based upon an acceptable appraisal report, which has the concurrence of the lender's staff appraisal reviewer shall be considered as being the "reasonable value" of the property. The aggregate of any loan secured by the property plus the amount of any assessment resulting from special improvements for which there may be a lien or right to a lien against the property may not exceed the reasonable value determination. The related loan shall not exceed the amount determined by the staff appraisal reviewer to be the "reasonable value" of the property, or the "revised reasonable value" after the proper processing of an appeal, plus the funding fee if it is to be included in the loan. The loan term may not exceed the lesser of 30 years and 32 days or the estimated economic life indicated in the block titled "IMPROVEMENT ANALYSIS" on the front of the URAR. LAPP lenders are not authorized to adjust the fee appraiser's remaining economic life estimate. All requests for revision of the fee appraiser's economic life estimate must be forwarded to VA. The lender's staff appraisal reviewer must circle the market value estimate and sign and date the back of the URAR in the open space located beside the block "FmHA, HUD &/or VA instructions" or in the "Final Reconciliation" block if space is available. The signature must be clearly legible or the reviewer's name must be typed. The space for the "Review Appraiser" located at the bottom of the form must not be used since it is to be used only by the cosigner of the report when such practice is allowed (VA does not allow the appraisal to be delegated to some other party).

4.13 LAPP Lender Notification of Reasonable Value Letter

Lenders must notify the veteran-borrower of the reasonable value determination and provide him/her with a copy of the reviewed appraisal report as soon as possible. Any delay of more than 5 workdays between the date of the lender's receipt of the fee appraiser's report and the date of the notification of value to the veteran, without reasonable and documented extenuating circumstances (e.g., additional information required of fee appraiser or an appeal of value processed by lender), will not be acceptable. The notification of reasonable value to the veteran will be transmitted by letter on the lender's letterhead which must include the appropriate information noted in figure 1. The lender may include any other information in the transmittal letter in addition to the information required by VA. THE LENDER SHALL NOT ISSUE VA FORM 26-1843, CERTIFICATE OF REASONABLE VALUE, OR ANY OTHER DOCUMENT WHICH MAY BE CONSTRUED AS A CERTIFICATE OF REASONABLE VALUE. Paragraph 4.15 provides guidance in a number of areas to assist in ensuring that appropriate conditions of VA loan guaranty are considered by the LAPP staff appraisal reviewer.

4.14 Copy to VA of URAR and LAPP Lender Notification of Reasonable Value Letter

In all cases, the lender will furnish the VA regional office of jurisdiction a copy of the appraisal report and all addendums, including copies of all pictures depicting the subject and comparables, as reviewed by their staff appraisal reviewer, and a copy of the lender's notification of reasonable value to the veteran. This material will be furnished on the same date the veteran is notified of the reasonable value determination. The requirement for providing a copy of the appraisal to VA is contained in the statute authorizing LAPP. These copies will be used by VA to monitor the making of the appraisals by the appraisers and the effectiveness and efficiency of the determination of reasonable value by the lender. In cases when the fee appraiser provided a revised appraisal report, copies of both the initially submitted and the revised reports must be submitted together to the VA regional office.

4.15 Other Considerations in Processing LAPP Cases

The following items are brought to LAPP lenders' attention for consideration to assist in ensuring a case is properly processed and that appropriate conditions and requirements relating to the subject property are noted and can be satisfied in order to meet VA Loan Guaranty Program requirements. This information is for guidance purposes and is not all encompassing.

a. Additional Requirements and Special Conditions. Additional requirements of the VA regional office of jurisdiction over the location of the subject property with respect to special conditions upon which the reasonable value determination is predicated; e.g., requirements for wood destroying insect information, health authority approval of individual water and/or sewage disposal systems, code enforcement areas, lead-based paint, shall be met and appropriate evidence in the form required by VA regional office provided with cases submitted to VA for loan guaranty.

b. Evidence of Insurance-Backed Warranty Plan. In appropriate cases, the lender must provide evidence of enrollment of the property in a VA accepted 10-year insurance-backed warranty plan with the submission for loan guaranty. In such cases, the lender's letter to the veteran must advise that, since the property was not inspected by VA or FHA during construction, the property will not qualify for Government assistance in the correction of structural defects.

c. Flood Hazard Areas. Flood insurance must be obtained for any property located in an area designated by FEMA (Federal Emergency Management Agency) as having special flood hazards for which the sale of flood insurance is available under NFIP (National Flood Insurance Program). The amount of flood

insurance required will be equal to the outstanding balance of the loan or the maximum limit of coverage available for the particular type of property under the NFIP, whichever is less. VA fee appraisers are required, whenever possible, to indicate when properties are located in flood hazard areas and to note that flood insurance is required. However, it is the lender's ultimate responsibility to make sure no loan is closed without flood insurance if the property is in a special flood hazard area and flood insurance is available. If a property is located in a special flood hazard area and flood insurance coverage is not available, the property is not eligible for a VA guaranteed loan. LAPP lenders must maintain up-to-date flood maps. Map orders, or questions concerning map orders, should be directed to:

Federal Emergency Management Agency
Flood Map Distribution Center
6930 (A-F) San Tomas Road
Baltimore, MD 21227-6227
1-800-333-1363

d. Lead-Based Paint/Properties Near Airports. Figures 5 and 6, respectively, are applicable to lead-based paint in existing properties and to the appraisal of properties near airports, respectively.

e. Safe Drinking Water Act. The lender's notification of reasonable value letter in cases involving existing not previously occupied construction, or existing resale construction, for which a building permit application is dated on or after June 19, 1988, or which involve substantial rehabilitation and alterations, improvements, or repairs to the potable water distribution system, must be conditioned to require a certification from the builder or contractor that any solders and flux used in construction did not contain more than 0.2 percent lead and any pipes and pipe fittings used did not contain more than 8.0 percent lead. (Public Law 99-339, Section 109, Safe Drinking Water Act Amendments. See fig. 7.)

4.16 Satisfaction of Repair Requirements

The lender must provide evidence that repair requirements outstanding on the URAR have been satisfied when the case is submitted for loan guaranty. Such evidence will be provided in accordance with the instructions issued by the VA regional office of jurisdiction over the location of the property or as follows:

a. Completion of an inspection by a VA fee appraiser or compliance inspector as evidenced by VA Form 26-1839, Compliance Inspection Report, or on their letterhead if acceptable to the VA regional office, evidencing that the repairs outstanding on the URAR have been satisfactorily completed. In the preponderance of cases, the appraiser who completed the

appraisal report would be expected to make the determination that the required repairs were acceptably completed. When the fee appraiser who was assigned by VA to do the appraisal is unable to conduct the inspection, the lender must request the assignment of another fee appraiser or a compliance inspector from the VA regional office. The lender must provide the newly assigned fee appraiser or compliance inspector with appropriate information concerning the repair item (in most cases a copy of the URAR) and advise that the case is being processed under the Lender Appraisal Processing Program, so the completed compliance inspection report will be sent directly to the lender for processing and not VA. The lender's staff appraisal reviewer will review the completed inspection report or letter noting completion and, if satisfied, will sign and date the report or letter.

b. The lender may provide a written certification that the outstanding repair requirements have been satisfied when the item is minor, uncomplicated, or of a nonstructural nature. The lender's staff appraisal reviewer makes the determination whether the items can be considered minor, uncomplicated or nonstructural. The lender certification procedure is similar to that used when VA issues the certificate of reasonable value. A certification from a licensed contractor or home inspection firm cannot be used as a substitute for the lender's certification although such a statement may be used by a lender to support the decision to make the required certification. Under LAPP VA will not become involved with any escrows for uncompleted items. As general guidance, repairs should be completed except in those rare instances when they cannot be completed for reasons beyond control such as extreme weather conditions; i.e., exterior painting in the cold winter months. If the lender, however, establishes an informal escrow or an earmarked account, the amount held should equal at least 150 percent or more of the cost of the item to ensure the lender has adequate funds to complete the repairs if the parties to the transaction fail to perform as necessary. In such cases, evidence of guaranty will be issued when VA Form 26-1820, Report and Certification of Loan Disbursement, is appropriately completed indicating that the funds intended for completion of repairs are being held by the lender in an escrow or earmarked account. Lenders must provide written notification to the VA regional office when the repairs are subsequently completed and the escrow/earmarked funds are disbursed. When disbursing these funds, lenders must assure that the costs of the repairs have been paid. If, after a reasonable period, the lender determines that the repairs will not be completed, they will take appropriate steps to ensure the repairs are acceptably completed. In general, the repairs should be completed within 90 to 120 days of loan closing. VA will expect to receive evidence of completion by inspection report or lender certification within that time period.

4.17 Title Limitations

When, subsequent to examination of title and prior to loan closing, the lender, or other interested party, discovers title conditions or limitations which are not recited on VA Form 26-1805 and/or not considered by the fee basis appraiser in the appraisal report, AND THE CONDITION IS NOT LISTED in figure 8 as not materially affecting the reasonable value of residential property, the lender must submit the information to the VA regional office for processing. If referred to the regional office, a copy of the appraisal report must be provided. Lenders are advised that referrals to VA for items that are listed in figure 8 will not, in any instance, be processed and will be returned to the requester with an appropriate notation from the VA regional office stating the basis for the return.

4.18 Complaints

All complaints made to the lender involving cases processed under LAPP concerning the condition of the property or the performance of the fee appraiser must be referred or forwarded to the VA regional office having jurisdiction over the location of the property. VA regional office staff will process the complaint in accordance with VA guidelines.

4.19 Submission of Case to VA for Guaranty

The original of the fee appraiser's appraisal report (URAR), as reviewed by the lender's staff appraisal reviewer, all attending information provided by the fee appraiser including original photographs, or listing service photographs, as well as any revisions made by the fee appraiser, and the lender's notification letter t the veteran, shall be included in the package submitted to .A for loan guaranty. Also included will be, as applicable, compliance inspection reports or letters, lender repair certifications, wood destroying insect information, individual water and/or sewage system approval information, and any other necessary documents to comply with outstanding requirements or special conditions for the specific case.

4.20 Validity Period/Expiration of the Appraisal

The appraisal is valid from the date the fee appraiser performed the appraisal and signed the URAR for a specific period of time. The appraisal will be considered valid for the lesser of 6 months or the validity period established and specified in a local release by the VA regional office of jurisdiction. When a veteran is under a valid sales contract and involved in a mortgage transaction with the LAPP lender who requested the assignment of the fee appraiser, the appraisal shall remain effective after the validity period has expired until the transaction is either consummated or terminated. The appraisal will not be considered valid in those cases when the

6-month period, or other period established by the VA regional office, has passed and the veteran elects to go to another lender to consummate the mortgage transaction. In such cases, the subsequent lender, whether it has LAPP authority or not, may not use the original appraisal and must order a new appraisal assignment which may be under LAPP if the subsequent lender has been delegated LAPP authority by VA. Alternatively, the subsequent lender may submit a complete copy of the original appraisal report and all addendums and photocopies to the regional office having jurisdiction which will review the report and, if determined appropriate, issue a CRV for the property. If a CRV cannot be issued, the regional office will advise the lender to process a new appraisal request.

4.21 Appraisal Processed Under LAPP and Submitted to VA for Credit Underwriting on the Prior Approval Basis

a. There will be instances when the lender processes the appraisal under LAPP but the case is then submitted to VA for credit underwriting on the prior approval basis. Such cases provide the opportunity for VA staff to review the LAPP lender's staff appraisal review prior to loan closing. It is not required or intended that all LAPP cases submitted to VA for credit underwriting purposes also be reviewed by Construction and Valuation staff for appraisal purposes. Regional offices have the authority to select the prior approval cases which Construction and Valuation Staff will then review for quality of the lender's appraisal review and the effectiveness and efficiency of the lender's determination of reasonable value. Cases which are marginal from a credit underwriting standpoint should be strongly considered for VA staff appraisal review since certain aspects of the appraisal, if not properly considered, could increase the risk of default (e.g., an older property in which required MPR repairs were not properly considered or recommended, or a property in which seller incentives for the comparables were not appropriately considered or adjusted for.) Furthermore, since the statute requires that VA not only monitor the making of appraisals by appraisers but also the effectiveness and efficiency of the determination of value by lenders, LAPP cases submitted for processing on the prior approval basis are one method of satisfying the requirements of the statute.

b. In cases submitted by LAPP lenders on the prior approval basis, the LAPP staff appraisal reviewer shall have made the reasonable value determination and transmitted the notification of value letter to the veteran. The original of the fee appraiser's appraisal report (URAR), as reviewed by the lender's staff appraisal reviewer, all attending information provided by the fee appraiser including the photographs, and a copy of the lender's notification letter to the veteran, shall be provided with each LAPP case submitted on the prior approval basis. In addition to the above requirements, all information requirements of the VA Loan Processing Section related to an automatic lender submitting cases on the prior approval basis must be met.

4.22 Convertibility of Appraisals Ordered Through HUD

a. It is recognized that in some instances the lender will have ordered the appraisal assignment on the rotational basis from HUD because the case initially involved HUD/FHA financing and for valid reasons the original deal may "fall through" and subsequently a veteran-purchaser desiring VA financing contracts to purchase the property or the purchaser subsequently "switched" financing after the appraisal was ordered. If the fee appraiser assigned by HUD is also a member in good standing of the VA fee panel and the property is eligible to be processed under LAPP authority, the LAPP lender may use that appraisal for VA financing purposes. In such cases, the LAPP lender will use the telephone assignment procedure to request the LAPP case number but will clearly identify that they are using a HUD rotationally assigned fee appraiser who is also on VA's fee panel, noting the appraiser's full name and providing all other information required by the regional office assignment procedure.

b. Lenders are fully expected to use the VA assignment system when the case involves a VA contract from the outset, thereby restricting instances when the HUD system is used to those cases when the FHA deal "fell through" or the purchaser "switched" to VA financing after initially pursuing FHA financing. VA regional offices may require the lender to provide a written statement and/or evidence of the circumstances of the case to satisfy themselves of this fact. Manipulation of VA's or FHA's rotational assignment procedure (e.g., the appraiser assigned did not complete the assignment and the transfer to another appraiser was not authorized by HUD or VA) is considered a basis for removal or suspension action as described in this handbook. VA regional offices will not expand fee panels solely to accommodate appraisers who are also on HUD's fee roster to address these cases.

4.23 Transfer of Appraisal Reports in LAPP Cases

The veteran, or in some instances some other party to the transaction, may have reason to seek another lender after the lender initially contacted has reviewed the fee appraiser's appraisal report (URAR) and issued its notification of reasonable value letter to the veteran. The LAPP lender's notification of reasonable value letter is not transferrable to another lender. However, the URAR may be used by another LAPP lender provided their staff appraisal reviewer performs a complete review of the report and the lender issues, on its own letterhead, a notification of reasonable value letter to the veteran. The receiving lender is fully responsible for the quality of the appraisal and for complying with all outstanding instructions and LAPP processing requirements. Lenders are expected to cooperate on a reciprocal basis in such cases. Original copies of the URAR, all addendums and clear copies of all pictures may be obtained from the fee appraiser. If the fee

appraiser needs to reproduce or obtain new photographs, he or she may negotiate a reasonable fee to "transfer" a case as herein described. The lender or the veteran may pay the fee. If the subsequent lender does not have LAPP authority, all appraisal documents must be submitted to the VA regional office of jurisdiction for review and issue of a CRV.

SECTION V. WITHDRAWAL OF SPECIAL PRIVILEGE UNDER LAPP

5.01 Amendment, Removal or Withdrawal of LAPP Authority

The special privilege extended to the lender to determine reasonable value may be withdrawn, removed, or amended by the Loan Guaranty Officer when proper cause exists and the lender is without operations in other regional offices' jurisdictions. All determinations regarding withdrawal of LAPP authority for multi-jurisdictional lenders must be made by VA Central Office. Depending on the nature and extent of the noncompliance with the requirements of the authority extended under this section, as determined by VA, VA may take any of the following actions:

a. Withdrawal of the special privilege when:

(1) The lender no longer meets the established basic requirements; or

(2) The lender's reasonable value determinations are arrived at in a manner not in accordance with the requirements and procedures contained in VA regulations, guidelines, instructions or applicable laws.

b. Reinstatement of probationary period for a specified duration for the purpose of evaluating lender's compliance with the requirements for making the reasonable value determination, which could include VA office review of lender's reasonable value recommendations prior to loan closing.

5.02 General Basis for Administrative Actions

Withdrawal action may be initiated when there is sufficient information or adequate evidence to support reasonable belief that an unacceptable act, practice or performance by the lender or the lender's staff has occurred. Such acts, practices or performance include, but are not restricted to:

a. Demonstrated technical incompetence (i.e., conduct demonstrating insufficient knowledge of industry accepted appraisal principles, techniques and practices, or the lack of technical competence to review appraisal reports and make value determinations in accordance with those requirements);

b. Substantive or repetitive errors (i.e., any error(s) of a nature that would materially or significantly affect the determination of reasonable value or condition of the property or a number of series of errors that, considered individually, may not significantly impact the determination of reasonable value or property condition, but which, in the aggregate, would establish that appraisal reviews or LAPP case processing are being performed in a careless or negligent manner); and/or

c. Continued instances of disregard for VA requirements after having been called to the lender's attention.

5.03 Notification and Length of Administrative Action Period

Withdrawal of authority by the Loan Guaranty Officer may be for an indefinite or a specified period of time. For any withdrawal longer than 90 days, a reapplication for lender authority to process appraisals will be required. Written notice will be provided at least 30 days in advance of withdrawal unless the Government's interests are exposed to immediate risk from the lender's activities in which case the withdrawal will be effected immediately. The notice will clearly and specifically set forth the basis and grounds for the action. There is no right to a formal hearing to contest the withdrawal of LAPP processing privileges. However, if within 15 days after receiving notice the lender requests an opportunity to contest the withdrawal, the lender in person, in writing, or through a representative, may submit information and argument to the Loan Guaranty Officer in opposition to the withdrawal. The Loan Guaranty Officer will make a recommendation to the Regional Office Director for a determination as to whether the action should be sustained, modified or rescinded. The lender will be informed in writing of the decision.

5.04 Right of Appeal to Chief Benefits Director

The lender has the right to appeal the Regional Office Director's decision to the Chief Benefits Director. In the event of such an appeal, the Chief Benefits Director will review all relevant material concerning the matter and make a determination that shall constitute final Agency action. If the lender's submission of opposition raises a genuine dispute over facts material to the withdrawal of LAPP authority, the lender will be afforded an opportunity to appear with a representative, submit documentary evidence, present witnesses and confront any witness the Veterans Benefits Administration presents. The Chief Benefits Director will appoint a hearing officer or panel to conduct the hearing. When such additional proceedings are necessary, the Chief Benefits Director shall base the determination on the facts as found, together with any information and argument submitted by the lender.

5.05 Decision of Chief Benefits Director

In actions based upon a conviction or civil judgment, or where there is no genuine dispute over material facts, the Chief Benefits Director shall make a decision on the basis of all the information in the administrative record, including any submission by the lender.

5.06 VA Issuance of CRV's When LAPP Authority Withdrawn

Withdrawal of LAPP authority will require that VA make subsequent determinations of reasonable value for the lender. Consequently, VA staff will review each appraisal report and issue a certificate of reasonable value which can then be used by the lender to close loans on either the prior approval or automatic basis.

5.07 Other Administrative Actions

Withdrawal by VA of the lender's LAPP authority does not prevent VA from also withdrawing automatic processing authority or taking debarment or suspension action based upon the same conduct by the lender.

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LENDER'S NOTIFICATION OF REASONABLE VALUE LETTER TO VETERAN

1. For the purpose of notifying the veteran of the lender's reasonable value determination, as well as any conditions specific to the property which must be met prior to guaranty of the loan by VA, the lender shall provide the veteran with a transmittal letter on the lender's letterhead which contains the following information. (The lender may add any additional information it deems necessary, provided it doesn't alter the required information.)

"[On (date) our VA authorized staff appraisal reviewer personally reviewed the appraisal report completed by the VA fee appraiser who was assigned to VA case (number), for (property address), by the VA (cite office) Regional Office. Based upon the review by our staff appraisal reviewer, our reasonable value determination for this property is $(amount). Based upon this reasonable value determination, our maximum loan amount (including a funding fee of $(amount) is $(amount)). The maximum loan term is (number of years "economic life" estimated by fee appraiser or 30 years whichever is less.)"

2. The following specific conditions apply to this property. (Lenders will list all appropriate conditions relating to the subject property. The following items should provide assistance in determining conditions but is in no way an all inclusive list.)

a. The property conforms to VA's minimum property requirements "as is".

b. The property will conform to VA's minimum property requirements subject to satisfactory completion of the following repairs as evidenced by (VA compliance inspection by name of inspector) or (lender certification).

(List MPR repairs recommended by fee appraiser and concurred in by the staff appraisal reviewer.)

c. Health Authority Approval. Execution of Health Authority form or letter from a source authorized by VA indicating approval of the individual _____ water supply and/or _____ sewage disposal system.

d. Wood Destroying Insect Information - Existing Construction. The seller shall, at no cost to the veteran-purchaser, prior to settlement, obtain a written statement from a qualified pest control operator reporting wood destroying insect information using VA Form 26-8850, Wood Destroying Insect Information Existing Construction, or other

Figure 1. Notification of Reasonable Value to Veteran

form acceptable to VA. The veteran-purchaser will acknowledge receipt of a copy of the statement in item 14 of VA Form 26-8850 or on the other form acceptable to VA.

e. Flood Hazard Area. Since this property is located in a special Flood Hazard Area as established by FEMA, flood insurance will be required in accordance with 38 CFR 36.4326 and Section 102 of Public Law 93-234, Flood Disaster Protection Act of 1973.

f. Energy Conservation Improvements. The buyer may wish to contact the local utility company or a qualified person or firm for a home energy audit. If energy-related improvements are suggested, your mortgage may be increased to include the following: Thermostats, water heaters, heating/cooling systems, attic insulation, insulation for floors and foundation walls, weather-stripping/caulking, storm windows and storm doors. The mortgage may be increased by (a) up to $2,000 without a separate determination of the value of the energy-related improvements; (b) up to $3,500 if supported by a value determination by a designated appraiser; or (c) more than $3,500 subject to a value determination by VA and subsequent endorsement of the determination of reasonable value.

g. Ten-Year Insurance-Backed Warranty Plan. This property is, or will be, enrolled in a 10-year insurance-backed warranty plan accepted by VA. The property was not inspected by VA, or FHA, during construction and, as such, will not qualify for Government assistance in the correction of structural defects. Evidence of enrollment in the accepted plan is required prior to VA guaranty of the loan related to this property.

h. Important Notice to the Veteran. VA has had an appraisal made of this property to determine its reasonable value for loan purposes. This appraisal, however, does not assure that the home will be satisfactory to you in all respects or that all equipment will operate properly.

(1) A thorough inspection of the property by you or a reputable inspection firm may help minimize any problems that could arise after loan closing. Particular attention should be given to plumbing, heating, electrical and roofing components.

(2) REMEMBER: VA guarantees the loan, not the condition of the property.

Figure 1--Continued. Notification of Reasonable Value to Veteran

MINIMUM PROPERTY REQUIREMENTS FOR EXISTING CONSTRUCTION

1. These requirements for existing housing, together with appropriate administrative rules and regulations, prescribe the basic qualifications necessary for eligibility of existing properties.

a. Real Estate Entity. The property shall comprise a single plot except that a primary plot with secondary plot for an appurtenant garage or for other use essential to the marketability of the property may be acceptable provided the two plots are in such proximity as to comprise a readily marketable real estate entity.

b. Party or Lot Line Wall. A building constructed on or to a property line shall be separated from the adjoining building, or from the adjoining lot, by a party or lot line wall. Party or lot line walls shall extend the full height of the building.

c. Services and Facilities

(1) Trespass. Each living unit shall be one that can be used and maintained individually without trespass upon adjoining properties. Any easements granted shall run with the land to protect future owners.

(2) Utilities. Utilities shall be independent for each living unit except that common services, such as water, sewer, gas, and electricity, may be provided for living units under a single mortgage or ownership. Separate utility service shut-offs for each unit shall be provided. For living units under separate ownership, common utility services may be provided from the main to the building line when protected by easement or covenant and maintenance agreement acceptable to VA. Individual utilities serving a living unit shall not pass over, under, or through another living unit, unless provision is made for repair and maintenance of utilities without trespass on adjoining properties or legal provision is made for permanent right of access for maintenance and repair of utilities.

(3) Other Facilities. Other facilities shall be independent for each living unit, except that common services, such as laundry and storage space or heating, may be provided for several living units under a single mortgage.

d. Required Provisions

(1) Each living unit shall contain each of the following:

(a) A continuing supply of safe and potable water.

(b) Sanitary facilities and a safe method of sewage disposal.

Figure 2. Minimum Property Requirements for Existing Construction

(c) Heating adequate for healthful and comfortable living conditions. Field stations may determine that climatic conditions are such that mechanical heating is not required.

(d) Domestic hot water.

(e) Electricity for lighting and for equipment used in the living unit.

(2) When individual water supply and sewage disposal systems apply, the following shall be required:

(a) Water quality shall meet the requirements of the health authority having jurisdiction. If the local health authority having jurisdiction does not have specific requirements, the maximum contaminant levels established by the EPA (Environmental Protection Agency) shall apply.

(b) Connection shall be made to a public or community water system whenever feasible.

(c) Each living unit shall be provided with a water-carried sewage disposal system adequate to dispose of all domestic wastes in a manner which will not create a nuisance, or in any way endanger the public health. Individual pit privies are permitted when such facilities are customary and are the only feasible means of waste disposal, provided they are installed in accordance with the recommendations of the local Department of Health or, in the absence of such recommendations, with the requirements of the U.S. Public Health Service publication, "Individual Sewage - Disposal systems."

(d) Whenever feasible, connection shall be made to a public or community sewage disposal system.

e. Nonresidential Use - Design Limitations

(1) Any nonresidential use of the property shall be subordinate to its residential use and character. A property, any portion of which is designed or used for nonresidential purposes, is eligible only if the type or extent of the nonresidential use does not impair the residential character of the property.

(2) Areas designed or used for nonresidential purposes shall not exceed 25 percent of the total floor area. Storage areas or similar spaces which are integral parts of the nonresidential portion shall be included in the total nonresidential area.

Figure 2--Continued. Minimum Property Requirements for Existing Construction

f. Access - Streets

(1) Each property shall be provided with vehicular or pedestrian access from a public or private street. Private streets shall be protected by permanent easements.

(2) The required street and provisions for its continued maintenance shall include a safe and suitable vehicular access to and from the property at all times.

g. Access to the Living Unit. A means of access to each living unit shall be provided without passing through any other living unit.

h. Access to the Rear Yard

(1) Access to the rear yard shall be provided without passing through any other living unit.

(2) For a row-type dwelling, the access may be by means of alley, easement, passage through the dwelling, or other acceptable means.

i. Defective Conditions. Existing or partially completed construction which indicates defective construction, poor workmanship, evidence of continuing settlement, excessive dampness, leakage, decay, termites, or other conditions impairing the safety or sanitation of the dwelling shall render the property unacceptable until the defects or conditions have been remedied and the probability of further damage eliminated.

j. Space Requirements. Each living unit shall be provided with space necessary to assure suitable living, sleeping, cooking and dining accommodations, and sanitary facilities.

k. Mechanical Systems. Mechanical systems shall assure safety of operation, be protected from destructive elements, have reasonable durability and economy, and have adequate capacity and quality.

l. Ventilation. Natural ventilation of structural spaces, such as attics and crawl spaces, will be provided to reduce the effect of conditions which are conducive to decay and deterioration of the structure.

m. Roof Covering. Roof covering shall prevent entrance of moisture and provide reasonable durability and economy of maintenance.

Figure 2--Continued. Minimum Property Requirements for Existing Construction

n. Hazards. The property shall be free of those hazards which may adversely affect the health and safety of the occupants or the structural soundness of the improvements, or which may impair the customary use and enjoyment of the property by occupants. The hazards can be subsidence, flood, erosion, defective lead-based paint, etc.

Figure 2--Continued. Minimum Property Requirements for Existing Construction

SUBJ: Eligibility for Appraisal of Existing Construction, Not Previously Occupied, and the Property is Covered by an Insured 10-Year Protection Plan

1. There is no prohibition against pre-selling to veteran-purchasers, or advertising the availability of VA financing in advance of completion of construction or before the customer preference item stage is reached.

2. Existing construction which is fully complete except for customer preference items; e.g., interior finishes, appliances, equipment, and those improvements for which escrows are permissible due to conditions beyond the builder's control, may be accepted for appraisal provided it is determined that the property meets or exceeds VA minimum property requirements for existing construction. Also, it will be indicated to the veteran in the lender's notification letter that the property was not inspected by VA or FHA during construction, and as such will not qualify for Government assistance in the correction of structural defects.

3. To meet eligibility requirements, the property must be covered by an insured 10-year protection plan as that has been determined acceptable by the VA regional office having jurisdiction over the location of the subject property. The entire cost of the insurance coverage must be prepaid by the seller and be automatically transferred to subsequent purchasers without additional cost. The insurance coverage must be non-cancelable by the insurer. Such protection plans provide the following:

a. For 1 year from the effective date, an insurance-backed warranty against defects caused by faulty workmanship and/or defective materials.

b. During the second year after the effective date, and insurance-backed warranty of the wiring, piping and duct work of the electrical, plumbing, heating and cooling systems.

c. A system for complaint handling which includes conciliation and, if necessary, to resolve matters in dispute, arbitration arranged by the American Arbitration Association or a similar body.

4. Evidence of enrollment of the property in the 10-year insurance-backed warranty plan must be submitted with the related loan report or certification of loan disbursement at the time of the request for guaranty.

Figure 3. Suggested Letter on Existing Construction Covered by VA Accepted 10-Year Protection Plan

APPRAISAL REVIEW GUIDELINES

The importance of care and sound judgment in the proper review of appraisal reports cannot be overstated. When the information or methodology contained in an appraisal report requires additional clarification or support, the LAPP staff appraisal reviewer shall contact and obtain from the fee appraiser the information necessary to make a prudent decision on the reasonableness of the value estimate. The following guidelines are provided to assist LAPP staff appraisal reviewers in appraisal reviews and represent areas/items which should cause the staff appraisal reviewer to question the fee appraiser's appraisal analysis and/or methodology. This is by no means intended to be an all-encompassing list which lessens or limits the importance of other considerations. It shall not be used as a checklist. The areas/items are as follows:

a. Use of comparables over 12 months old must have an adequate explanation. In some real estate markets, the use of comparables over 6 months old may be considered outdated sales. Time adjustments should have a reasonable basis and large time adjustments must be explained.

b. The description of the proximity of the comparable to the subject must be specific (e.g., 3 blocks north). In metropolitan or suburban areas, comparables normally should be located close to the subject while in rural areas distances of several miles may be the norm. Comparables located outside of what would be considered the subject's market area must be fully explained by the fee appraiser.

c. Use of contract sales, unsettled sales, and listings in the market data analysis section of the appraisal report is generally not acceptable. VA will consider the use of such data acceptable if used in addition to closed sales to support the time adjustments and the reasoning process supporting the valuation determination. In any instance in which such "sales" are used, they must be clearly identified and their use fully explained.

d. Large individual and/or total net adjustments to the comparables should cause the reviewer to question if the fee appraiser selected proper comparables or has made individual adjustments according to cost or some factor other than market reaction to the item. Generally, the proper selection of comparables minimizes the size of individual adjustments and total net adjustment. In line with this, a wide range in comparable sales prices (e.g., $60,000 to $120,000) should also cause the reviewer to question the fee appraiser's comparable selection unless an adequate explanation has been provided.

Figure 4. Appraisal Review Guidelines

e. Fee appraisers are required to provide pictures which clearly depict comparables employed in the market data analysis section of the appraisal report. Careful review of the pictures can reveal instances in which the appraiser should be questioned relative to comparable selection or other factors such as the failure to adjust for amenities readily visible in the picture (e.g., use of a brick 2-story in comparison to a frame 1-story subject or a comparable with a fireplace when the subject has none).

f. It is recognized that various sales or financing incentives may be offered by sellers, builders or lenders. Examples of these incentives include interest rate buydowns, give-aways or the inclusion of nonrealty items into the transaction, closing costs customarily paid by the buyer, loan discount points and origination fees, among others. The fee appraiser should consider and report the effects of such seller-paid incentives on the comparables utilized in the appraisal report when such information is available and ascertainable through reasonable investigation. It must also be recognized that the effect of creative financing or sales incentives on sales prices can vary in different locales. Adjustments as a rule should not be based upon a straight arithmetical dollar-for-dollar basis equal to the cost of the incentives to the seller. The amount of any adjustment should be based upon the general real estate market reaction to the incentive. In all instances, the fee appraiser must explain the basis for any adjustment(s) for financing or sales incentives. An adjustment without an adequate explanation is not acceptable. Additionally, in proposed construction cases the fee appraiser should generally consider closed sales, resales of similar properties, and sales of competing builders and other sellers in determining if adjustments for financing or sales incentives are appropriate.

g. Any finding that the fee appraiser's analysis is not based upon recognized appraisal practices and was intended to "accommodate" or "meet" the sale price will cause the appraisal report to be unacceptable. In such cases the LAPP lender shall not determine reasonable value and shall refer the case, along with a written report outlining their findings, to the VA regional office having jurisdiction for review.

Figure 4--Continued. Appraisal Review Guidelines

LEAD-BASED PAINT

Fee appraisers and compliance inspectors have been furnished the following instructions that LAPP lenders should consider applicable to lead-based paint:

a. General. The use of lead-based paint is prohibited on applicable surfaces of any properties to be financed by VA. The following definitions apply:

(1) Lead-based paint means any paint or other similar surface coating materials containing lead or lead compounds which exceed the percentage of lead by weight permitted by law.

(2) Applicable surfaces means all interior and exterior surfaces.

(3) Immediate hazard means paint (which may contain lead) on applicable surfaces which is cracking, scaling, chipping, peeling, or loose.

(4) Defective paint condition means any paint on applicable surfaces which is cracking, scaling, chipping, peeling, or loose.

b. Procedures and Treatment Applicable to Appraisals and Compliance Inspections

(1) All defective paint conditions shall be assumed to involve lead-based paint and to constitute immediate hazards that must be corrected, unless testing shows that lead is not present in the paint at a level above that permitted by law. (Most of the paint used in structures built in 1950 or earlier was lead-based.)

(2) All applicable surfaces identified as immediate hazards or defective paint conditions will receive adequate treatment to prevent the ingestion of contaminated paint. Particular care will be taken to correct conditions of cracking, scaling, chipping, peeling, and loose paint before repainting. All such surface conditions which require treatment will be thoroughly cleaned (washed, scraped, wirebrushed, or otherwise cleaned) so as to remove all cracking, scaling, peeling, chipping, and loose paint on applicable surfaces and then repainted with two coats of a suitable nonleaded paint. If the paint film integrity of the applicable surface cannot be maintained, the paint shall be completely removed or the surface recovered with a suitable material such as gypsum wallboard, plywood, or plaster before any repainting is undertaken.

Figure 5. Lead-Based Paint

(3) When appraising or making compliance inspections of properties intended to be financed with VA-guaranteed home loans, fee personnel will apply the provisions of subparagraphs (a) and (b) above, and will recommend the correction of defective paint conditions. The staff appraisal reviewer will ascertain that all defective painted surfaces are required to be repaired, and will issue the notification of reasonable value describing the areas to be repaired. The notification will require reinspection by fee personnel after the repair is completed.

Figure 5--Continued. Lead-Based Paint

APPRAISAL OF RESIDENTIAL PROPERTIES NEAR AIRPORTS

1. The purpose of this exhibit is to state VA policy and procedures relative to residential properties located near major civilian airports and military air bases. This exhibit also sets forth the circumstances under which VA will decline to accept residential properties within certain noise rating zones. VA must recognize the possible unsuitability for residential use of certain properties and the probable adverse effect on livability and/or value of homes in the vicinity of major airports and air bases. Such adverse effects may be due to a variety of factors including noise intensity.

2. Appraisal Principle Involved. The adverse effects of being located close to an airport must be considered on an individual basis. The effect on value shall be considered in the market data analysis in the appraisal process.

3. Development of Airport Files. Each LAPP lender will establish and maintain a separate airport file for each major civilian and military airport within its jurisdiction.

a. Civilian Airports. Some civilian airports have hired consultants to complete noise studies or studies which include noise data. These studies are to be used by LAPP lenders in carrying out VA policy involving the appraisal of residential properties near airports. VA maintains liaison with FAA (Federal Aviation Administration) Airport District Offices or FAA Regional Headquarters. These offices and/or the civilian airport management are contacted on a periodic basis to assist in updating airport files by providing current documentation, if available. Memorandums of contact with FAA or management officials are included in airport files. LAPP lenders must assure themselves that up-to-date airport files are maintained.

b. Military Airports. The military services have adopted AICUZ (Air Installation Compatible Use Zone) reports for many of the major air bases throughout the country. The AICUZ concept was designed to promote land-use development near military airfields in a manner which would protect adjacent communities from the noise and safety hazards associated with aircraft operations and also to preserve the operational integrity of the airfields. AICUZ reports assess levels of aircraft noise exposure and accident potential and specify a wide variety of types and intensity of land usage by a series of districts which consider these two factors.

4. AIRPORT NOISE ZONES. The following chart classifies noise levels into a set of noise zones according to the most commonly used environmental noise descriptors:

Figure 6. Appraisal of Residential Properties Near Airports

Noise Zone	CNR (Composite Noise Rating)	NEF (Noise Exposure Forecast)	DNL (Day/Night Average Sound Level)
1	Under 100	Under 30	Under 65
2	100 - 115	30 - 40	65 - 75
3	Over 115	Over 40	Over 75

5. Specific Limitations

a. Proposed or existing properties located in noise zone 1 are generally acceptable as security for VA-guaranteed loans.

b. Proposed construction to be located in noise zone 2 will be acceptable provided:

(1) Sound attenuation features are built into the dwelling to bring the interior DNL of the living unit to 45 decibels or below; and

(2) There is evidence of market acceptance of the subdivision in which the property is to be located; and

(3) The veteran-purchaser signs a statement which indicates his/her awareness that (a) the property being purchased is located in an area adjacent to an airport, and (b) the aircraft noise may affect normal livability, value, and marketability of the property.

c. Proposed subdivisions to be located in noise zone 3 are not generally acceptable. The only exception is a situation in which VA has previously approved a subdivision, and the airport noise contours are subsequently changed to include the subdivision in noise zone 3. In such cases, loan applications will continue to be processed provided the requirements in subparagraphs b(1), (2) and (3) above are met.

d. Existing dwellings in noise zones 2 and 3 are not to be rejected because of airport influence if there is evidence of acceptance by a fully informed veteran. No existing property will be rejected because of airport influence if that property is the security for an outstanding VA loan. The effect on value, if any, of the properties location in an airport noise zone shall be considered by the fee appraiser in the appraisal process.

6. Airport Clear Zones and Accident Potential Zones

In addition to considering noise zones, LAPP lenders should determine whether properties in close proximity to airports are located in clear zones or accident potential zones.

Figure 6--Continued. Appraisal of Residential Properties Near Airports

a. Clear Zones. Both the Department of Defense and the FAA have programs designed to bring the the highest accident risk areas, called runway clear zones at civil airports and clear zones at military airfields, under the control of the airport operator, thus ensuring that no incompatible development takes place. These zones are located immediately beyond the ends of a runway. Even though these programs have been in existence for a number of years, there are still areas that are not controlled by the airport operators.

(1) Proposed Construction. Requests for appraisal of proposed construction located in the runway clear zones of civil airports and the clear zones of military airfields shall not be accepted by VA.

(2) Existing Construction. Existing dwellings located in runway clear zones and clear zones are eligible for VA guaranteed financing provided:

(a) There is evidence of market acceptance of the subdivision or area in which the property is located; and

(b) The veteran-purchaser signs a statement which indicates his/her awareness that the property is located in a clear zone and that this may have an affect upon value and marketability of the property. Such properties are probably also located in noise zone two or three, and the acknowledgement should address this issue.

b. Accident Potential Zones. AICUZ reports completed for military airfields identify areas beyond the clear zones which also have significant potential for accidents. These areas have been labeled as accident potential zones. Civilian airports do not identify accident potential zones.

(1) Proposed Construction. Military AICUZ reports discourage residential development in accident potential zones. However, appraisals for proposed construction in accident potential zones may be acceptable provided the project in which the properties are located is consistent with the recommendations found in the AICUZ report for the applicable airfield, and:

(a) There is evidence of market acceptance of the subdivision or area in which the property is located; and

(b) The veteran-purchaser signs a statement similar to that noted in subparagraph a(2)(b) above.

Figure 6--Continued. Appraisal of Residential Properties Near Airports

(2) Existing Construction. Existing construction located in an accident potential zone is eligible for VA guaranteed financing provided the requirements of subparagraphs a(2)(a) and (b) above are satisfied, and the property is otherwise eligible.

Figure 6--Continued. Appraisal of Residential Properties Near Airports

PUBLIC LAW 99-339, SECTION 109
SAFE DRINKING WATER ACT AMENDMENTS

1. Amendments to the Safe Drinking Water Act, Public Law 99-339, Section 109, approved June 19, 1986, provide for a ban on lead water pipes, solder, and flux in certain instances which involve VA assistance.

2. The statutes states that effective June 19, 1988, VA may not guarantee a mortgage or furnish assistance with respect to newly constructed residential property which contains a potable water system unless such system uses only lead free pipe, solder and flux.

3. The term "lead-free" is defined in the statute with respect to solders and flux as containing not more than 0.2 percent lead and with respect to pipes and pipe fittings as containing not more than 8.0 percent lead.

4. If the proposed water distribution system in a house or living unit for which a building permit has been applied for from the building authority having jurisdiction on or after June 19, 1988, will contain lead piping and lead soldered joints or fittings the builder or contractor shall provide a certification that the lead content of solders and flux will not be more than 0.2 percent lead and that the lead content of pipes and pipe fittings will not be more than 8.0 percent lead.

5. Lenders, builders and brokers are advised that each determination of reasonable value for proposed construction, existing construction not previously occupied for which the building permit application is dated on or after June 19, 1988, substantial rehabilitation and alterations, improvements, or repairs which involve the potable water distribution system will be conditioned to require a certification that in construction any solders and flux used did not contain more than 0.2 percent lead and any pipes and pipe fittings used did not contain more than 8.0 percent lead.

Figure 7. Safe Drinking Water Act

TITLE LIMITATIONS

The conditions or limitations to title listed below are deemed to have been taken into account in the appraisal of residential property have been determined by VA as not materially affecting the reasonable value of residential property, whether or not enforceable by a reverter clause, provided there has been no breach of the conditions affording a right to an exercise of the reverter clause (excerpted from 38 CFR 36.4350):

a. Building or Use Restrictions, provided no violation exists and the proposed use by the veteran does not presage a violation.

b. Violations of Building or Use Restrictions of Record which have existed for more than one year, are not the subject of pending or threatened litigation, and do not provide for a reversion or termination of title, condemnation by municipal authorities, or a lien for liquidated damages which may be superior to the lien of the guaranteed or insured mortgage.

c. Easements

(1) Easements for public utilities along one or more of the property lines and easements for drainage or irrigation ditches, provided the exercise of the rights of such easements do not interfere with the use of any of the buildings or improvements located on the subject property.

(2) Mutual easements for joint driveways located partly on the subject property and partly on adjoining property, provided the agreement is recorded in public records.

(3) Easements for underground conduits which are in place and which do not extend under any buildings on the subject property.

d. Encroachments

(1) On the subject property by improvements of the adjoining property when such encroachments do not exceed one foot within the subject boundaries, provided such encroachments do not touch any buildings or interfere with the use or enjoyment of any building or improvement on the subject property.

(2) By hedges or removable fences belonging to subject or a adjoining property.

(3) Not exceeding one foot on adjoining property by driveways belonging to subject property, provided there exists a clearance of at least eight feet between the buildings on the subject property and the property line affected by the encroachment.

Figure 8. Title Limitations

(4) Variations of Lot Lines which consist of variations between the length of the subject property lines as shown on the plot plan or other exhibits submitted to VA and as shown by the record or possession lines, provided such variations do not interfere with the current use of any of the improvements on the subject property and do not involve a deficiency of more than 2 percent with respect to the length of the front line, or more than 5 percent with respect to the length of any other line.

Figure 8--Continued. Title Limitations

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